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C O N F I D E N T I A L UNVIE VIENNA 000219

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FOR D, P, T, ISN, IO; DOE FOR NA-24, NA-25, NA-21; NSC FOR  
SCHEINMAN, CONNERY; NRC FOR DOANE, SCHWARTZMAN

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TAGS: [AORC](#) [PREL](#) [KNNP](#) [IAEA](#) [UN](#)  
SUBJECT: IAEA BOARD CHAIR TAKES THE BUDGET IN HAND

REF: A. STATE 41671  
[1](#)B. UNVIE 182  
[1](#)C. UNVIE 201

Classified By: Charge d'Affaires Geoff Pyatt for reasons 1.4 b/d

[1](#)1. (SBU) Summary: The IAEA Secretariat has developed a new budget proposal for 2010-2011 that takes the previous proposal of a 23 percent increase over two years and "stretches" it over four years. The effort is likely a face-saving measure that recognizes the reality of the global economic downturn and the hostile response among many Member States to the original proposal. Budget hardliners Germany, France and others used the May 8 meeting as a platform to call for a revision of the budget proposal based on zero growth from the CY2009 budget currently in force. Board Chairwoman Feroukhi rejected these calls, in part because the stated position of the G-77 and China, constituting a "majority" of Member States, was one of openness to increases for some programs. Feroukhi complained that Member States had not proposed any numbers and asserted that it was time to get serious about negotiating a budget increase. Feroukhi's behavior, along with Finland and Romania's activism behind the scenes, continues to be our best bet for impeding the budget hardliners' drive for a zero growth budget. Mission stresses the importance of demarches in Board capitals and looks forward to Washington guidance for detailed rounds of budget negotiations starting May 13 (ref C). End Summary.

[1](#)2. (SBU) Member States were treated to an unexpected and dramatic revision of the IAEA's 2010-2011 budget proposal during an "informal meeting" on May 8. In a carefully worded presentation, Budget Director Carlo Reitano explained that the Secretariat now proposed to "stretch" the original budget proposal over four years (two biennia). The stretching exercise cuts the rate of increase by spreading it over four years, lengthening the time Member States have for paying the budget increase. Reitano was careful to avoid the implication that the Secretariat had scaled back or reconsidered its original, proposed increase. He stressed there had been no change in the percentage allocation between the different programs (safeguards, technical cooperation, etc.), and that the overall level for the operational portion of the budget still reached 331 million euros in this new proposal (albeit over four years instead of two). The portion of the original proposal dedicated to capital investment has been front-loaded in the first two years of this new, "four-year plan," but again, the end result is the same (it just takes longer to get there).

[1](#)3. (SBU) Board Chair Feroukhi had announced the meeting on 48-hours' notice and without previously informing her Vice Chair for budget negotiations, Romanian Ambassador Cornel

Feruta. She made several statements exhorting Member States to get serious about the budget. She noted that time was running short, given the budget is traditionally approved by the June Board Meeting and "must be adopted" by the September General Conference. She also expressed frustration that Member States had not proposed any "numbers" during the April 27-28 meeting of the Program and Budget Committee (PBC), but only the vaguest of positions. Feroukhi announced that Board Vice Chair Feruta would begin another round of informal, detailed budget negotiations early the week of May 11. She then opened the floor to Member States.

14. (SBU) U.S. Charge opened the discussion with an appeal for states not to revert to "business as usual" and noting recent, high-level U.S. statements supporting increased resources for the IAEA. Predictably, budget hardliners ignored the substance of the new proposal and simply used the meeting to call for a new budget based on zero real growth (ZRG). For example, the German Ambassador colorfully asserted that a "bitter pill doesn't become any easier to swallow just because you break it in pieces." He then asserted that "the majority" of Member States had asked for a revision of the budget based on ZRG (a claim quickly dismissed by Feroukhi, who pointed out that the G-77 had not ruled out increases for "some" major programs.) Further tough calls from the UK, Canada, France, Australia, Japan and Mexico threatened to overwhelm a U.S. statement requesting flexibility and consideration for the possibilities of a significant increase. Only Egypt weakly asserted that the G-77 had not coordinated any reaction to the new proposal (not having known about it) and had refrained from comment out of respect for Feroukhi's request that we not engage in substantive discussions.

15. (C) Behind the scenes, Romania continues to keep Mission informed of developments in the EU and G-77. Romania also helpfully delayed Feroukhi's announced launch of detailed budget negotiations to May 13, giving the U.S. time to finalize a position. Feroukhi privately underlined her impatience with the call for zero growth and her appreciation for U.S. effort to keep the door open to some real increase, even if the eventual compromise is far below the Secretariat proposal. Finland, for its part, continues to act as a small but irritating outlier among EU budget hawks. During the PBC, Finland had prevented the EU from reaching a hardline consensus on the budget, irritating the European budget hawks locally and raising complaints in Helsinki about Finland's uncooperativeness. Ironically, Finland's troublemaking elicited the admiration - not condemnation - of Helsinki officials, and Finnish diplomats are currently under instructions to disrupt any attempt by the budget hawks to speak "on behalf of the EU." (True to form, Finnish Second Secretary Jani Raappana informed the German ambassador that he had come too close to crossing the line during the May 8 meeting.) A veteran of two EU presidencies, Raappana specifically requested that the U.S. demarche Finland's Ministry of Industry as a counterbalance to the activities of the budget hawks in Helsinki.

Comment  
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16. (SBU) The new budget "phase-in" proposal likely emerged from the Secretariat's recognition that no bloc of countries had embraced Director General ElBaradei's bold attempt to increase the IAEA's budget by 23 percent in one biennium. Given this reality, the Secretariat's proposal to "stretch" the budget is really an attempt to find some kind of support in the budget negotiations by slowing the rate of increase and testing Member States' reactions. The Secretariat is well aware that Member States renegotiate the budget every biennium and approve its annual installments in the General Conference each year. Even if the new proposal were approved, the community could have a chance to revisit the "four-year" plan halfway through, in 2011. It was a smart political move, allowing ElBaradei to shake off his moment of immoderation without suggesting that he was wrong to have entertained it. From the point of view of the United States,

the new proposal is much like the original in its emphasis on U.S. priorities, although the suggestion to defer safeguards funding necessary to enhance detection of undeclared nuclear activities would need to be reversed.

17. (SBU) Feroukhi, for her part, is clearly determined to encourage some kind of budget increase for the IAEA. She has now contradicted the German ambassador publicly on two occasions, admitting in private that it is her role to "be provocative." We welcome her activism, given G-77 ambivalence and the increasing momentum of the budget hawks. Privately, DDG Waller expressed to charge grave concern about the landslide of criticism he faced on May 8 and the need for efforts in the G-8 and elsewhere to find some flexibility in the currently rigid approach of the budget hawks. Per reftel, Mission stresses the importance of demarches in key capitals and looks forward to Washington guidance for this latest round of budget negotiations starting May 13.

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